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accurate accounting thereof throughout the entire meter life cycle. Record-keeping is required for all meters including newly produced meters, active leased meters, inactive meters, unleased meters, and lost or stolen meters. All such facilities and records are subject to inspection by Postal Service representatives.

(b) If the manufacturer uses a third party to perform functions that may affect meter security, including, but not limited to meter repair, maintenance, and disposal, the manager of Postage Technology Management, Postal Service Headquarters, must review in advance all aspects of the relationship, as they relate to the custody and control of meters, and must specifically authorize in writing the arrangement between the parties.

(1) Postal Service authorization of a third-party relationship for a given function does not extend to any other function. Extension of the third-party relationship to another function must be implemented and approved as if it were a new relationship.

(2) No third-party relationship shall compromise the security of the meter, or of any of its components, including, but not limited to, the hardware, software, communications, and security components, or of any system with which it interfaces, including, but not limited to, the resetting system, reporting systems, and Postal Service support systems. The functions of the third party with respect to a meter, its components, and the systems with which it interfaces are subject to the same scrutiny as the equivalent functions of the manufacturer.

(3) Any authorized third party must keep adequate facilities for and records of meters and their components in accordance with paragraph (a) of this section. All such facilities and records are subject to inspection by Postal Service representatives, insofar as they are used to distribute, control, store, maintain, repair, replace, destroy, or dispose of meters.

(4) The manufacturer must ensure that any party acting in its behalf in any of the functions described in paragraph (a) of this section maintains adequate facilities, records, and procedures for the security of the meters.

Deficiencies in the operations of a third party relating to the custody and control of postage meters, unless corrected in a timely manner, can place at risk a manufacturer's approval to manufacture and/or distribute postage meters.

(5) The Postal Service reserves the right to review all aspects of any third-party relationship when it becomes aware that the relationship poses a threat to meter security under paragraph (b)(2) of this section, whether or not that relationship required authorization under paragraph (b) of this section.

[68 FR 2698, Jan. 21, 2003]

§ 501.23 Distribution controls.

Each authorized postage meter manufacturer must do the following:

(a) Hold title permanently to all meters of its manufacture except those purchased by the Postal Service.

(b) On behalf of applicants, transmit electronically copies of completed PS Forms 3601-A, Application for a License to Lease and Use Postage Meters, to the designated Postal Service central processing facility.

(c) Lease meters only to parties that have valid licenses issued by the Postal Service.

(d) Supply only those meter slogan or ad plates that meet the Postal Service requirements for suitable quality and content.

(e) (1) Have all meters set, sealed (if applicable), and checked into service by the appropriate Postal Service representative before delivering them to licensees. Meters must be checked into service at the licensing post office, unless the meter is serviced under the on-site meter-setting program.

(2) The meter manufacturer must present the meter and a completed PS Form 3601-C, Postage Meter Installation, Withdrawal, or Replacement, to the appropriate Postal Service representative when checking a meter into service.

(3) A meter should show a zero in the descending register before being checked into service. If a zero is not shown, the initial payment must include the residual amount the locked-out meter could not imprint.

(f) Notify Computerized Remote Postage Meter Resetting System licensees of the dates on which meter examinations are due, and notify the licensing post offices of CMRS meters that have not been reset during the previous 3 months and/or are due for an annual examination. Resetting transactions must not be completed by the manufacturer if the meters are not taken to the post office for examination by the due date. Licensees who do not bring in their meters after the initial manufacturer notification must be approached again within 15 days, preferably by personal contact. If a response is not received within another 15 days, the Postal Service shall notify the licensee that the meter is to be removed from service and the meter license revoked, following the procedures for revocation specified by regulation. The Postal Service shall notify the manufacturer to remove the meter from the licensee's location and present it to the licensing post office to be checked out of service within 15 days.

(g) Check a nonfaulty meter out of service in accordance with the procedures that the Postal Service has approved for that meter when the meter is to be removed from service for any reason. Ensure that a Postal Service employee certifies the register readings and clears the descending register when the meter is checked out of service, unless the Postal Service has approved other procedures for the specific meter model. Complete the checkout process in a timely manner and transmit the required data to the appropriate Postal Service information systems. Ensure that no employee of the meter manufacturer or any third-party changes, interferes with, or performs any element of the Postal Service employee's established checkout and withdrawal process for any meter, unless approval for the change in procedures is granted in writing by the Postal Service.

(h) Handle faulty meters, including those that are inoperable, those that are misregistering or the registers are unreadable, those that inaccurately reflect their current status, those that show any evidence of tampering or abuse, and those for which there is in-

formation or other indication that the meter has some mechanical or electrical malfunction of any critical security component, such as any component the improper operation of which could adversely affect Postal Service revenues, or of any memory component, or that affects the accuracy of the registers or the accuracy of the value printed, as follows:

(1) Ensure that all functions required to handle faulty meters are completed in a timely manner and in accordance with Postal Service regulations and procedures.

(2) Begin the process to retrieve any faulty meter within 2 business days of being notified of a problem.

(3) Complete PS Form 3601-C, Postage Meter Activity Report, in the presence of the licensee and obtain the licensee's signature on the form confirming that the information is accurate.

(i) Include the register information on the form when the registers can be read.

(ii) Print the system report, if available for the meter, and attach the report to PS Form 3601-C when the register values cannot be read.

(iii) Have the licensee provide any original daily usage logs with PS Form 3601-C for refund calculation when the register values cannot be read.

(4) Identify and tag the meter as faulty as soon as the manufacturer or the manufacturer's agent receives it from the customer. Keep the identification tag and the PS Form 3601-C, which was completed under paragraph (h)(3) of this section, with the faulty meter until processing is completed and the meter is returned to service or is scrapped.

(5) Secure all faulty meters and maintain the integrity of the meter and of the information residing on the meter. Maintain control of the meter until processing is completed.

(6) Ensure that under no circumstance are registers on a faulty meter cleared or any funds refunded or transferred until examination and processing are completed, the Postal Service has reviewed and analyzed the manufacturer's report and determined the appropriate postage adjustment, if

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any, and approved refund procedures are followed.

(7) Maintain a record of the faulty meter and all changes in its custody, state, and condition (including availability of register information) from the time the meter is reported as faulty until processing is completed under paragraphs (h)(9), (12), or (14) of this section. Make the record available to the Postal Service for its review upon request.

(8) Examine each meter withdrawn for faulty operation as soon it is received from the customer to determine if the registers can be read and if there is any evidence of tampering.

(9) When the registers can be read or a summary report of the appropriate redundant electronic register memory readouts is available using Postal Service-approved methods, and there is no evidence of tampering or any problem covered by paragraph (h)(13) of this section:

(i) Check out the meter and withdraw it from service under paragraph (g) of this section.

(ii) Submit a report to the Postal Service by the 15th of each month listing all faulty meters with readable displays and no other problems received in the prior month, identifying the meter and including an explanation of the meter malfunction.

(10) Maintain a dedicated, secure facility, approved by the Postal Service, for handling faulty meters that cannot be handled under paragraph (h)(9) of this section.

(11) Ship faulty meters not handled under paragraph (h)(9) of this section directly to the secure facility described in paragraph (h)(10) of this section for processing. Ship these faulty meters via Registered Mail service, Express Mail service, or Priority Mail service with Delivery Confirmation service.

(12) If there is no evidence of tampering, if the meter registers cannot be read, and if a summary report of the appropriate redundant electronic register memory readouts cannot be retrieved:

(i) Develop other data to support the request for Postal Service approval of a postage adjustment amount, such as a manual calculation of the estimated value of the descending register based

on estimated highest average daily usage, or applicable system-generated register documentation. Include the original daily usage logs maintained by the customer, if any, with the supporting data.

(ii) Furnish a report explaining the malfunction to the Postal Service within 7 days of receiving the meter. Accompany the report with a recommendation of the postage adjustment amount that includes all data developed to support the recommendation.

(iii) Maintain control of those meters that have unreadable registers and hold them in the manufacturer's dedicated, secure facility described in paragraph (h)(10) of this section until a representative of the Postal Service approves the postage adjustment amount or verifies the condition of the meter before proceeding with the meter repair or destruction.

(13) In some instances, even though the registers can be read, there is information or other indication that the meter has some mechanical or electrical malfunction that affects the accuracy of the registers or the accuracy of the value printed. Handle such meters under paragraph (h)(12) of this section.

(14) If there is evidence or suspicion of tampering:

(i) Ensure that the meter is handled in a secure manner and maintained in its original state until the Postal Service or its agent can be present during the examination.

(ii) After examination, if approved by the Postal Service or its agent, process the meter under paragraph (h)(12) of this section.

(15) Issue the refund of any postage value said to remain in a faulty meter, after Postal Service approval of the amount of the refund, when the Postal Service requires it. Request reimbursement from the Postal Service for these refunds by periodically submitting a reimbursement request letter to the Postal Service. Accompany the letter with listings and support documentation for each refund and indicate the cause of failure for each incident.

(i) Report promptly the loss or theft of any meter or the recovery of any lost or stolen meter. The manufacturer

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must provide notification by the Postal Service with completing a standardized lost and stolen meter incident report notifying within 30 calendar days of the manufacturer's determination of a meter loss, theft, or recovery. The manufacturer must complete all preliminary location activities specified in § 501.26 before submitting this report to the Postal Service.

(j) Provide the designated Postal Service Information Systems Service Center (ISSC) with a compatible computer magnetic tape, computer diskette, or electronic transmission, listing all licensee meters in service, at the close of business each postal quarter. Include in each file record the meter serial number, model number, the user's name and address, the date that the meter was placed in service, and the ZIP Code or finance number of the licensing post office. Manufacturers are responsible for reconciling differences and keeping accurate records. This reporting includes reconciliation of differences with licensing post offices by the manufacturer's branches or dealers, which results from meters that are not in Postal Service or manufacturer records.

(k) Keep at manufacturer's headquarters a complete record by serial number of all meters manufactured, showing all movements of each from the time that the meter is produced until it is scrapped, and the reading of the ascending register each time the meter is checked into or out of service through a post office. These records must be available for inspection by Postal Service officials at any time during business hours. These records must be destroyed 3 years after the meter is scrapped.

(l) Cancel a lease agreement with any lessee whose meter license is revoked by the Postal Service, remove the meter within 15 calendar days, and have the meter checked out of service.

(m) Promptly remove from service any meter that the Postal Service indicates should be removed from service. When a meter license is canceled, all meters in use by the licensee must be removed from service.

(n) Keep a permanent record by serial number of all meter keys issued to postmasters, as well as those sections

of the manufacturer's establishment in which their use of the keys is essential, preferably in the form of signed receipt cards. The record must include the date, location, and details of any loss, theft, or recovery of such keys.

(o) Examine each meter withdrawn from service for failure to record its operations correctly and accurately, and report to the Postal Service the mechanical condition or fault that caused the failure.

(p) Provide monthly the designated ISSC with a compatible computer tape of lost or stolen meters. The file is due on the first of each month (for the preceding month's activity).

(q) Take reasonable precautions in the transportation and storage of meters to prevent use by unauthorized individuals. Manufacturers must ship all meters by Postal Service registered mail unless given written permission by the Postal Service to use another carrier. The manufacturer must demonstrate that the alternative delivery carrier employs security procedures equivalent to those for registered mail.

(r) Affix to all meters both a cautionary label providing the meter user with basic reminders on leasing, meter movement, and misuse and a barcoded label containing a barcoded representation of the meter serial number.

(1) The cautionary label must be placed on all meters in a conspicuous and highly visible location. Words printed in capital letters should be emphasized, preferably printed in red. The minimum width of the label should be 3.25 inches, and the minimum height should be 1.75 inches. The label should read as follows:

RENTED POSTAGE MEMBER—NOT FOR
SALE

PROPERTY OF [NAME OF
MANUFACTURER]

Use of this meter is permissible only under U.S. Postal Service license. Call [Name of Manufacturer] at (800) ###-#### to relocate/return this meter.

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WARNING! METER TAMPERING IS A
FEDERAL OFFENSE.

IF YOU SUSPECT METER TAMPERING,

CALL POSTAL INSPECTORS AT 1-800-654-
8896 OR (202) 484-5480.

REWARD UP TO \$50,000 for information
leading to the conviction of any person
who misuses postage meters resulting in
the Postal Service not receiving correct
postage payments.

(2) The barcode label must be placed near the stamped serial number and must meet these specifications: Code 3 of 9, ten digits long, with the first two digits being the manufacturer code (01—Ascom Hasler, 02—Pitney Bowes, 03—Francotyp-Postalia, 04—Friden Neopost) and the next eight digits being the meter serial number, zero-filled, right-justified. Additional barcode digits may be used for manufacturer purposes if the Postal Service is notified of the information to be encoded thereby.

(3) Exceptions to the formatting of required labeling are determined on a case-by-case basis. Any deviation from standardized meter labeling requirements must be approved in writing by the Postal Service.

(s) A demonstration meter is typically used to acquaint a potential user with the features of a meter as part of the sales effort. The following procedures must be followed to implement controls over demonstration meters:

(1) A demonstration meter may print only specimen indicia and must not be used to meter live mail.

(2) A demonstration meter must be recorded as such on internal manufacturer inventory records and must be tracked by model number, serial number, and physical location. If the meter's status as a demonstration meter changes, the meter must be administered according to the procedures that apply to its new status.

(3) A demonstration meter may be used only for demonstrations by a manufacturer's dealer or branch representative and must remain under the dealer's or representative's direct control. A demonstration meter may not be left in the possession of the potential customer under any circumstance.

(t) A postage meter loaned to a customer for temporary use (a "loaner meter") is typically used to acquaint a potential user with the features of a meter as part of the sales effort, or serves as a temporary placement while the customer awaits delivery of a new meter. The following procedures must be followed to implement controls over loaner meters:

(1) A loaner meter prints valid indicia and may be used to apply postage to a mailpiece. Only electronic, remote-set meters may be used as loaner meters. The city/state designation in the loaner meter indicia must show the location where the user's mail will be deposited.

(2) A customer may have possession of a loaner meter for a maximum of five consecutive business days. When the customer chooses to continue the use of a postage meter, the loaner meter must be retrieved and a new meter must be installed under the customer's license.

(3) The manufacturer's dealer or branch representative ("representative") must have a USPS-issued meter user license to place a loaner meter. A single license per USPS district can be used to issue loaner meters to customers in any of the different Post Office service areas within that district.

(4) Loaner meters must be reported electronically to the USPS meter tracking system when activated. A Form 3601-C, Postage Meter Activity Report, must be initiated to activate a loaner meter under the representative's meter license. The licensee and meter location information on the form will show the representative rather than the temporary user. However, loaner meters may only be placed with customers who have been issued a USPS meter license.

(5) Representatives must record and verify the accuracy of the ascending and descending register readings when a loaner meter is placed with the customer. Any discrepancies detected during the verification process must be reported immediately to the meter manufacturer, who will then notify Postage Technology Management.

(6) The representative is responsible for resetting the loaner meter with

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postage and must arrange for reimbursement directly with the customer.

(7) The representative maintains full responsibility for the loaner meter. As both a manufacturer's representative and a meter licensee, the representative is subject to the provision of Domestic Mail Manual part P030 and Code of Federal Regulations part 501. As a licensee, the representative assumes all licensee responsibilities under USPS meter regulations and must ensure that loaner meters are available for examination by the Postal Service on demand and are examined in accordance with Postal Service policy. Any losses incurred by the Postal Service as a result of fraudulent use of the loaner meter by the customer are the responsibility of the meter licensee, the customer, and the manufacturer.

(8) When the customer returns the meter, the dealer or branch representative must record and verify the accuracy of the ascending and descending register readings and inspect the meter. Any discrepancies or indication of tampering or fraudulent use must be reported immediately to the meter manufacturer, who will then notify Postage Technology Management. In such circumstance, the meter must not be used and must be returned to the manufacturer's QAR department via Registered Mail.

(9) Loaner meters must be reported electronically to the USPS meter tracking system when withdrawn from service. The dealer or branch representative must prepare Form 3601-C, Postage Meter Activity Report, for each loaner meter withdrawn.

[60 FR 30726, June 9, 1995, as amended at 66 FR 20745, Apr. 25, 2001. Redesignated at 66 FR 55097, Nov. 1, 2001, and amended at 67 FR 69138, Nov. 15, 2002]

§ 501.24 Administrative sanction.

(a) *Meter* for purposes of this section means any postage meter manufactured by an authorized postage meter manufacturer under § 501.1 that is not owned or leased by the Postal Service.

(b) An authorized manufacturer that, without just cause, fails to conduct or perform adequately any of the controls in § 501.22, to follow standardized lost and stolen meter incident reporting in § 501.26, or to conduct any of the inspec-

tions required by § 501.25 in a timely fashion is subject to an administrative sanction based on the investigative and administrative costs and documented revenue losses (net of any amount collected by the Postal Service from the licensee or meter user) with interest per occurrence measured from the date on which the cost and/or loss occurred, as determined by the Postal Service. Sanctions shall be based on the costs and revenue losses that result from the manufacturer's failure to comply with these requirements.

(c) The Postal Service may impose an administrative sanction under this section by issuing a written notice to the manufacturer setting forth the facts and reasons on which the determination to impose the sanction is based. The Postal Service shall determine all costs and losses. The notice shall advise the manufacturer of the date that the action shall take effect if a written defense is not presented within 30 calendar days of receipt of the notice.

(d) The manufacturer may present to the Postal Service a written defense to the proposed action within 30 calendar days of receipt of the notice. The defense must include all supporting evidence and state with specificity the reasons for which the sanction should not be imposed.

(e) After receipt and consideration of the written defense, the Postal Service shall advise the manufacturer of the decision and the facts and reasons for it. The decision shall be effective on receipt unless it provides otherwise.

(f) The manufacturer may submit a written appeal of the decision within 30 calendar days of receiving the decision, addressed to the manager of Retail and Customer Service, Postal Service Headquarters. The appeal must include all supporting evidence and state with specificity the reasons that the manufacturer believes that the administrative sanction was erroneously imposed. The submission of an appeal stays the effectiveness of the sanction.

(g) The imposition of an administrative sanction under this section does not preclude any other criminal or civil statutory, common law, or administrative remedy that is available by